

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Chile

### Retail Foods

### Retail Food Sector Report

**Approved By:**

Anita Katial, Agricultural  
Attaché

**Prepared By:**

María José Herrera M.,  
Marketing Specialist

**Report Highlights:**

Chilean supermarket industry is constantly looking for new products to satisfy upscale consumer demand. According to supermarkets and importers, among the best prospects are beef meat, baby formulas, frozen meals, candies, cereals, dairy products, functional/healthy food products and ice cream.

**Post:**  
Santiago

**Author Defined:**  
**SECTION I. MARKET SUMMARY.**

The Chilean economy is amongst the fastest growing economies in the Latin American region. However, since 2013 it has been experiencing a gradual deceleration as GDP growth in 2013 fell to 4.6% compared to 5.6% in 2012. This is a result of moderate expansion of private consumption and net exports. The Chilean peso depreciation since May 2013 has helped improve external price competitiveness in a context of lower copper prices.

In 2014, the Chilean economy is expected to continue its growth, however at a slower pace of about 4%. With a population over 17.8 million and a GDP per capita of US\$16,000, Chile continues to be seen as one of the most attractive markets in Latin American.

In 2013, the World Bank classified Chile as a “high-income” economy for the first time, based on its per-capita gross national income. The percentage of Chileans living in poverty stood at 46 percent in 1987; today it is approximately 14 percent. The United States is Chile's second-largest trading partner (after China).

<b>Best Countries for Doing Business (ranking 2014)</b>	
<b>Country</b>	<b>Ranking</b>
Singapore	1
Switzerland	2
Hong Kong	3
Canada	4
Australia	5
Sweden	6
U.S.A.	7
New Zealand	8
Finland	9
Denmark	10
Chile	13
Ireland	15
France	24

Source: Economist Intelligence Unit ([www.eiu.com](http://www.eiu.com))

Most consumption occurs in the Santiago Metropolitan Region since it concentrates one third of the country's total population. The main food distribution channels are supermarkets with a share of about

62%. Three main business groups concentrate most of the sales providing them greater bargaining power with suppliers. However, Chile is becoming increasingly urbanized, not only in the Metropolitan region but also in other provincial or second-tier cities. Retailing industry has been adjusting to this trend especially grocery retailing that has been adopting a convenience model through chained convenience stores, forecourt retailers and smaller supermarkets.

There are an estimated 637 supermarkets in Chile, the 199 supermarkets in the Metropolitan region, make up just 32.2% of Chile’s total number, but comprises 46.7% of national sales.

Food Sales per Channel		
Format	Total Sales Billion US	Market Share 2013
Supermarkets & Hypermarkets	17,9	62%
Traditional Markets or Family Sto	6,6	23%
Convenience Store/ Gas Marts	4,3	15%
<b>Total</b>	<b>28,9</b>	<b>100%</b>

Source: Newspaper articles

Chile has a consolidated position as Latin America’s most competitive economy mainly due to its sustained economic growth and openness to trade. Chile is characterized as a free, dynamic and highly competitive market. In addition, consumption patterns in Chile have undergone tremendous transformations during the last decades, Chileans are shifting from locally produced goods to more expensive and higher quality, branded products and are incorporating processed packaged foods for “diet” and “light” foods and beverages. Therefore, U.S. exporters need to be aware of the emerging trends in consumption patters as well as pricing when accessing Chilean food market. U.S. exporters must adjust their margins to be as competitive as possible and differentiate its products so any value added is understood by the end client and serves to justify a higher price.

The increasing sophistication and segmentation of the Chilean food market as well as rising incomes have led to increases in both essential and non-essential consumer spending. In addition, Chile has built a modern and dynamic agroindustrial food sector and has access to abundant and high quality raw material. Therefore, Chile is becoming an active food exporter and producer. For example, Chile is currently the southern hemisphere’s largest fruit exporter. For U.S. companies to introduce their products in Chile, they must also pay attention to some cultural business aspects such as building a more personal relationship based in trust with the suppliers. Chileans have a great permeability and acceptance of foreign cultures. Chile has a relationship driven culture so initial meetings should be used to build a relationship and establish trust. Thus, it is highly recommended to program face to face meetings with Chilean business representative to access this market. Courtesy is very important and efforts to rush a business deal are unlikely to meet with success.

U.S. food products are perceived by Chilean consumers as high quality. The consumers of U.S. food products mainly belong to upper and upper middle class, although an increasingly powerful middle class is also emerging as a customer base, especially with the arrival of Wall Mart in Chile with its brand Great Value. In this sense, U.S. suppliers have been successful in positioning their brands both lower end as well as higher end brands in Chile.

Fast food is one of the emerging trends in the country. As demand for convenience eating practices is increasing and young Chileans are adopting the U.S. eating habits. Fast food franchises are particularly growing well. With this shift and other factors, the food as well as beverages retail sales reached over US\$26 billion in 2013.

Many U.S. franchises continue expanding in Latin America. The franchising market is increasing considerably in the last five years with a sustained growth of 12% and over 130 companies operating in Chile. Food and beverages represent 30% of all franchises in Chile. Some of the top U.S. franchises in Chile are Starbucks, McDonald's, Subways, Dunkin Donuts and Kentucky Fried Chicken with over 40 stores in the country. Papa John's currently has over 15 stores operating in Santiago and Viña del Mar and is planning to count with 40 stores open by the end of 2014.

There are five main retail groups in Chile:

- Falabella
- Cencosud
- D&S (Walmart Chile)
- Ripley
- La Polar

Falabella and Cencosud have department stores, home centers and supermarket/ hypermarkets; D&S is focused on supermarkets and hypermarkets; and Ripley and La Polar are focused on department stores.

Latin America's retail industry has implemented strong expansion plans among different industry players. The income of the retail industry totaled US\$321.5 billion in 2012: 76.32% from supermarkets, 21% from department stores and 2.28% from home improvement stores. Chile's supermarket segment is the industry's most consolidated segment. Chile has become the country with the most developed retail industry in the Latin American region with sales reaching US\$25.6 billion per year. This sector has experienced a sharp growth in the past years, basically motivated by high GDP growth rates.

According to ASACH (Chilean Supermarket Association) retail sales in Chile increased 2.3% in June 2014 over the same month in 2013. Retail sales year-to-year in Chile averaged 8.25% from 2006 until 2014, reaching an all time of 23.8% in April 2010 and a record low of -5.1% in April 2009. Recent increases in consumer prices, combined with stagnant wage growth have weighed on consumer spending. Domestic consumption dropped a bit to 4.5% in 2014 compared to 5.5% in 2013.

Industry forecasts in local currency terms (CLP):

- Total food consumption (CLP) growth year-on-year in 2014: +6.5%; compound annual growth rate to 2018: +6.6%
- Per capita food consumption (CLP) growth year-on-year in 2014: +5.6%; compound annual growth rate to 2018: +5.8%
- Total soft drinks value (CLP) sales growth year-on-year in 2014: compound annual growth rate to 2018: +7.2%
- Total mass grocery retail value (CLP) sales growth year-on-year in 2014: +5.6; compound

annual growth rate to 2018: +5.9%

Supermarkets are the retail format with most square meters, about 1.4 million nationwide. Chile's largest supermarkets chains include: Walmart (Lider Express, Hiper Lider, Ekono, A Cuenta), Cencosud (Jumbo, Santa Isabel), SMU Group (Unimarc) and Tottus (owned by Falabella).

According to the AT Kearney Global Retail Report for 2014, Chile ranked first place in their Global Retail Development Index (GRDI). With Uruguay, Brazil, Peru, Panama, Colombia, Costa Rica and Mexico also in the index of top emerging economies ready for retail expansion. Despite global deceleration, Latin America continues to show some strength as a regional retail growth market. Regional retailers are becoming players in emerging markets by using their proximity as a competitive advantage to steal share in neighboring markets. Chile's Falabella and Cencosud have begun aggressive growth plans to widen their footprint across Latin America.

### **Imports and Local Production of Food**

Food & Beverages Imports:

	Thousands US\$		
<b>Imports</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Food and Beverages	5,017,208	5,467,119	5,738,602

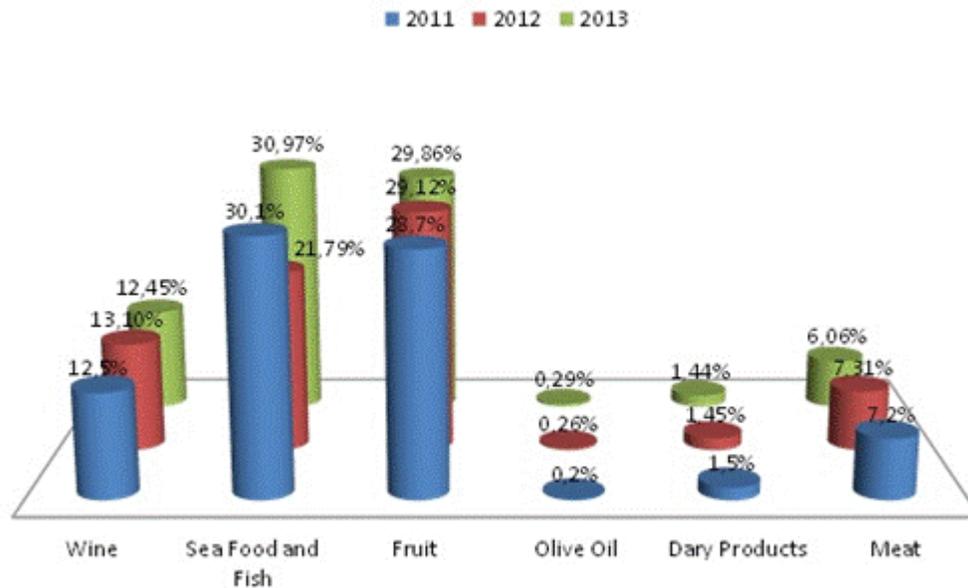
Food & Beverage Exports:

	Thousands US\$		
<b>Exports</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Food and Beverages	14,519,456	14,433,619	15,330,637

Source: Sofofa ([www.sofofa.cl](http://www.sofofa.cl) Federation of Chilean Industry), Central Bank ([www.bcentral.cl](http://www.bcentral.cl))

**Chilean Main Food Production for Exports 2013:**

## Chilean Main Food Production for Exports

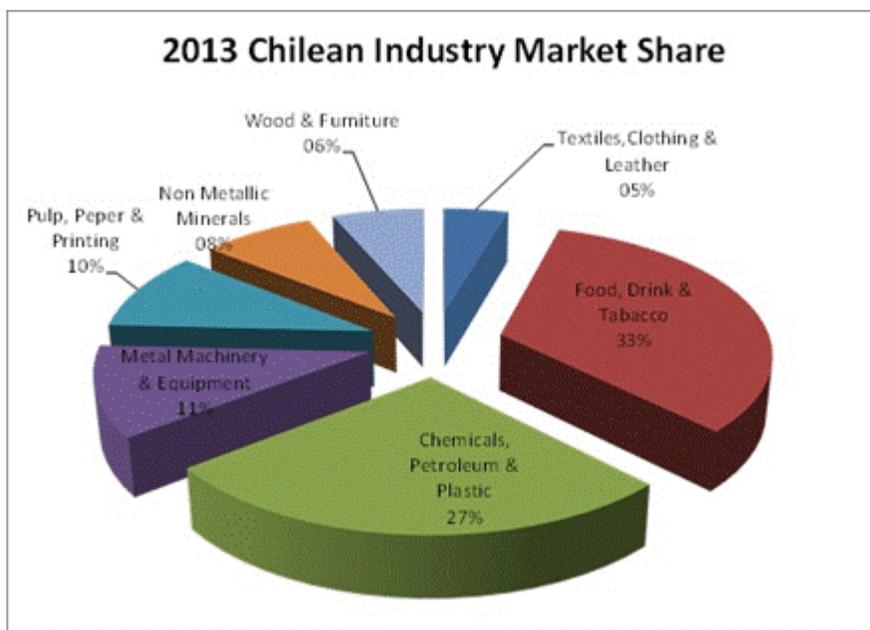


Source: ProChile with figures of Chile's Central Bank

## Main Imports of Agricultural Products from the World

Thousands US\$ CIF			Jan - Dec		Variation		Market Share
Ranking	HTS CODE	Product	2011	2012	2013	2013-2014	2013
1 <sup>o</sup>	2013000	Boneless beef fresh or chilled	752,536	764,804	817,353	6.90%	14.20%
2 <sup>o</sup>	10059020	Maize consumption (since 2012)	0	254,026	276,473	8.80%	4.80%
3 <sup>o</sup>	23040000	Cakes and soybean residues	253,906	286,160	257,937	-9.90%	4.50%
4 <sup>o</sup>	15179000	Blended oils of animal or vegetable plants and animals	362,075	340,712	242,848	-28.70%	4.20%
5 <sup>o</sup>	23099060	Preparations containing maize	0	9,562	225,675	2260.20%	3.90%
6 <sup>o</sup>	17019900	Refined sugar	364,465	276,710	214,333	-22.50%	3.70%
7 <sup>o</sup>	23099090	Other preparations of a kind used for animal feed	273,085	338,055	190,178	-43.70%	3.30%
8 <sup>o</sup>	22080000	Beer made from malt	65,298	95,091	130,284	37.00%	2.30%
9 <sup>o</sup>	21069090	Other food preparations nencop	97,817	100,711	115,326	14.50%	2.00%
10 <sup>o</sup>	23011000	Flours, meals and pellets of meat or meat offal, greaves, unfit for human consumption	44,589	73,491	110,787	50.70%	1.90%
11 <sup>o</sup>	2071400	Cuts and edible offal of poultry, frozen	84,964	84,794	100,280	18.30%	1.70%
12 <sup>o</sup>	2082900	Other frozen meat pig	40,097	50,221	87,484	74.20%	1.50%
13 <sup>o</sup>	15079000	Refined soya oil	4,128	24,279	75,768	212.10%	1.30%
14 <sup>o</sup>	23081000	Residues of starch manufacture and similar residues	64,920	71,318	74,229	4.10%	1.30%
15 <sup>o</sup>	20041000	Potatoes (potatoes), prepared or preserved, frozen	36,827	48,499	67,160	35.70%	1.20%
		Other Products	2,572,501	2,647,687	2,752,486	4.00%	48.00%
		<b>TOTAL</b>	<b>5,017,208</b>	<b>5,467,119</b>	<b>5,738,602</b>	<b>5.00%</b>	<b>100.00%</b>

Source: prepared by Odepa with information from the National Customs Service.



The food, beverage, and tobacco industries include the production, processing and preservation of food products such as meat, fish, fruit, vegetables, oils and fats, dairy, grain mill products, starches, animal fodder, bakery products, sugar, soft drinks and alcoholic drinks, and cigarettes.

According to SOFOFA, analyzing the evolution of local production during 2013, the sub-industries that showed the highest growth rate in production was: **beverages, meat, fish, fruit, legumes, dairy products, and tobacco**. These product categories also showed the most positive sales growth in 2013.

### Main Export of Agricultural Products to the World

Thousands US\$ FOB			Jan - Dec		Variation	Market Share	
Ranking	HTS CODE	Product	2011	2012	2013	2013-2014	2013
1 <sup>o</sup>	8061000	Fresh grapes	1,429,611	1,410,989	1,526,782	8.20%	10.00%
2 <sup>o</sup>	22042110	Wine with denomination of origin	1,321,640	1,337,642	1,361,276	1.80%	8.90%
3 <sup>o</sup>	47032900	Chemical pulp timber other than coniferous, soda (soda) or sulphate, other than dissolving, semi-bleached or bleached	1,179,933	1,163,134	1,261,631	8.30%	8.20%
4 <sup>o</sup>	47032100	Coniferous chemical pulp, soda (soda) or sulphate, other than dissolving, semi-bleached or bleached	1,358,103	1,137,922	1,259,770	10.70%	8.20%
5 <sup>o</sup>	8081000	Fresh apples	667,214	719,329	798,389	11.00%	3.20%
6 <sup>o</sup>	44071012	Sawn wood (since 2007)	438,163	476,397	571,382	19.90%	3.70%
7 <sup>o</sup>	8104000	Cranberries, blue, bilberries and other fruits of the genus Vaccinium	389,423	383,119	411,783	6.90%	2.70%
8 <sup>o</sup>	22042990	Other wine	243,242	330,163	390,869	18.40%	2.50%
9 <sup>o</sup>	2032900	Other frozen meat pig	363,300	413,733	368,806	-10.90%	2.40%
10 <sup>o</sup>	10051000	Maize planting	166,164	273,039	360,447	32.00%	2.40%
11 <sup>o</sup>	8092919	Other fresh sweet cherries (since 2012)	0	343,833	317,197	-8.30%	2.10%
12 <sup>o</sup>	44012200	Other wood in chips or particles non-coniferous	410,639	369,306	313,662	-13.10%	2.00%
13 <sup>o</sup>	47031100	Chemical softwood pulp, soda (soda) or sulphate, other than dissolving grades, unbleached	230,847	227,743	280,886	23.30%	1.80%
14 <sup>o</sup>	44091020	Beadings and moldings, furniture conifers	197,332	224,243	266,361	18.80%	1.70%
15 <sup>o</sup>	44123910	Other plywood, veneered wood and similar laminated wood conifers laminated wood conifers (since 2007)	413,421	281,117	231,899	-10.40%	1.60%
		Other Products	3,666,398	3,337,366	3,389,276	4.70%	36.30%
		<b>TOTAL</b>	<b>14,519,456</b>	<b>14,433,619</b>	<b>15,330,637</b>	<b>6.20%</b>	<b>100.00%</b>

Source: prepared by Odepa with information from the National Customs Service.

### Growth

According to the National Chamber of Commerce of Chile, grocery retail sales have been remaining steady since 2012, with an average growth rate of 20 percent per annum.

The Chilean food industry is the second largest source of foreign exchange income after copper and grows at a rate of US\$1 billion per year. In 2013 national food production totaled US\$37.5 billion; out of which 56% was for domestic consumption and 44% was exported. During 2013, Chilean food exports reached US\$15.2 billion. Chile's main food export markets for the period were the United States (US\$3.6 billion), Japan (US\$1.4 billion) and China (US\$1 billion).

The quality of Chile's food industry has achieved international recognition and according to the Global Food Security Index in 2013, issued by The Economist Intelligence Unit, the country is placed as the leader in the Latin American region.

Chile is currently developing new products with higher value added oriented to both domestic and international niche markets based on gourmet products such as olive oil, seafood delicatessens, flavored unsweetened mineral water, jams, wine jellies, dehydrated berries and native potatoes, honey, premium wines and microbrews.

U.S. companies should be aware that among the most traditional products, Chilean firms with the support of government R&D promotion programs implemented through ProChile and CORFO are innovating to add value to its exports, as in the case of salmon, pork, poultry, beef and sheep industry. Still other area that Chile has identified for investment is radio frequency identification technology (RFID) to meet the international requirements of traceability and food safety.

In summary, one of Chile's areas with higher development potential is the food and beverages sector, which represents about US\$14 billion of exports, 175 thousand of employment and almost 10% of the Chilean GDP. Also, the food and beverage retail business industries' sales are expected to rise 45%, from US\$25 billion in 2011 to an estimated US\$36.3 billion in 2015. Supermarket sales are expected to grow almost 40% up to US\$28.5 billion by 2015.

### **Main Retail Sub-Sectors**

Chile's retail industry has been adjusting to the new tendencies brought by new technologies into the market such as e-commerce and mobile commerce. Therefore new challenges in the industry are the development of new platforms that address new product requirements in terms of safety, quality and accessibility, better personalized customer services, greater variety of products, niche and especial dietary products as well as improvements in customer services in general.

Fast food is also one of the emerging trends in the country. As demand for convenience eating practices is increasing and young Chileans are adopting the U.S. eating habits, fast food franchises are particularly growing well. Same conditions and practices are also the main reason for the expansion in the opening of convenience stores such as Ekono of Walmart, OK Market of SMU and Big John linked to Juan Pablo Correa.

Currently, supermarkets and hypermarkets offer not only food but also clothing, electronics, home appliances, household items and even lunch and or coffee services to-go. At department stores it is common to find a gourmet section that offers spirits, gourmet products, preserves, cookies, chocolates,

etc. Pharmacies are not offering only drugs but also beverages (non-alcoholic drinks), snacks, candies and sophisticated perfumes and cosmetics lotions.

### **Trends in Distribution Channels**

In 2013 Supermarkets and hypermarkets continued to be the dominating channels for food distribution, especially packaged foods, representing 50% of the market values.

Manufacturers also tend to carry out promotional activities, such as sampling and price promotions, in the leading supermarkets and hypermarkets, such as Jumbo, Lider and Tottus. In addition, leading retailers have introduced discount outlets, particularly in small interior cities and rural towns, including Walmart Chile, with its Bodegas aCuenta chain.

In Chile food retail distribution is highly concentrated among four main business groups (Cencosud, Walmart Chile, SACI Falabella and SMU), this gives them greater bargaining power with suppliers.

The current trend has been in opening smaller stores with products that cater to the needs of specific consumers in certain area.

Health and wellness concerns are a growing trend among middle-and-upper income Chilean consumers. Foods that serve those with dietary food restrictions such gluten free, lactose free, sugar free, soy free, etc. needs have been growing slowly each year.

There has been a rise in health conscious consumers were partly driven by increasing coverage of health issues in newspapers, magazines and on television. Since 2013, the market has witnessed a number of product launches with features such as vitamin fortifications, healthy ingredients, suitability for weight watching, lower sugar, lower cholesterol, and lower fat content in both retail packaged food and food service outlets. Chile has a strong middle-class equivalent to about 40% of the population. The upper middle-class segment, of which about 60% is concentrated in Santiago, is the consumer target for high-end imported food products. During the last years, Chile's retail industry expansion has accelerated, with supermarket and hypermarket chains engaging in a race to expand their coverage to capture the best locations in cities and towns in the country. As outlets have expanded, the frozen capacity available in stores has surged. The capacity for storage of frozen processed food has eliminated one of the main barriers to further development of the market. Therefore, there is opportunity for considerable growth in frozen processed food.

Private labels sales in Chile are expected to grow further with Chilean consumers being Price sensitive. However, they face strong competition from international brands that have invested in Chile.

Chile is a country, which in general gives importance to brand names; therefore, it is possible to build brand loyalty in a normal, non-crisis economic environment.

<b>Advantages</b>	<b>Challenges</b>
Rising consumer spending and adoption of foreign food styles favor new types of inputs as consumers become more sophisticated and demanding in their taste.	Price sensitivity is becoming stronger because of rise in local prices in food and other products.

Chile is among the highest GDP per capita in Latin America.	Domestic fresh fruit and vegetable markets are abundant, as well as fresh and frozen seafood and fish.
U.S. food inputs are known for their quality and safety. They meet respected FDA & USDA standards.	Quality of food ingredients can be also found in Chile.
The U.S. is a strong, traditional trading partner and its products are welcome in Chile.	U.S. food producers are facing and increasing competition from other trade partners exporting to Chile that also enter the Chilean markets paying 0% tariff.
The U.S.-Chile Free Trade Agreement, in force since January 1, 2004, is making U.S. products more competitive, or at least allows them to compete on a more even playing field.	With WalMart in Chile, the prices of U.S. products have dropped significantly, for food, especially packed and frozen, making competition of other players more difficult.
Shipping from the U.S. is cheaper and quicker than from Europe or Asia.	
Population of 17 million is very centralized, with over 40% living within 100 miles of Santiago Metropolitan Region.	
Chile has one of the highest percentages of non-traditional (i.e. non “mom & pop”) store sales in Latin America, which allows suppliers to target retail chains for larger volume sales.	
Foreign companies may conduct business in Chile on the same basis as local companies, while they enjoy guaranteed access to foreign exchange for repatriation of capital and profits.	

## **SECTION II. ROAD MAP FOR MARKET ENTRY**

### **Entry Strategy**

Larger corporations increasingly prefer import directly from foreign suppliers, while smaller retailers are often not able to purchase whole containers or prefer that an importer/distributor manages logistics and inventory. Eventually, large sales volumes would justify establishing a local subsidiary to guarantee customer service, quality levels, and supply.

All edible products must be approved by the Chilean health and/or agricultural authorities and receive a registration number and open sales permit before put on the market. Please review FAS/Santiago [FAIRS Export Certificate](http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx) for import procedures and certifications. (<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>)

Distribution trade is very receptive to U.S. products, as they are perceived of high quality and good packing. When possible, larger buyers try to avoid local middlemen and buy direct in order to keep profit margins and remain competitive.

U.S. food products in Chile are respected for their quality levels. .

### **Key to Successfully Enter and Develop the Chilean Market**

When doing business in Chile always keep in mind that Chile has a market-oriented economy characterized by high levels of foreign trade and reputation of strong financial institutions and sound policies. It is characterized by having a highly educated and skilled workforce and an attractive business climate.

The key market success drivers are:

- A strong proactive attitude including long-term commitment to market and conscientious follow-through of exporting effort.
- Marketing and promotion.
- Adapting to competitive local price points and margins.
- Customer service.
- Openness to new market opportunities.
- Flexibility with minimum order quantities.
- Flexibility with terms of payments.

### **Market Structure**

Food sales generally go mostly to supermarkets, followed by traditional retailers and to small extent to institutions (HRI food services). Institutional sales are often handled as a separate business by the food companies.

Small neighborhood food stores continue to grow in number but nevertheless they struggle to compete with large supermarket chains which are constantly gaining as a higher market share as smaller independent stores cannot match the efficiencies and location advantages of market-leading hypermarkets. The supermarket sector is dominated by a few chains.

### **Distribution Channel Flow for Imported Foods & Beverages**



#### A. SUPER STORES, SUPERMARKETS, HYPER MARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS.

##### Supermarkets & Hypermarkets

2013	Cencosud	Tottus	Walmart
<b>Market Share (%)</b>	<b>33%</b>	<b>7%</b>	<b>44%</b>
Number of Stores	214	43	325
<b>Sales Areas (Th m2)</b>	525	155	748
Sales Growth 2013	12.7%	22.3%	12.4%
Gross Margin 2013	23.8%	23.6%	25.5%
<b>EDITDA Margin</b>	7.4%	3.8%	9.8%

Source: CorpResearch

Supermarkets & Hypermarkets account for the largest proportion of sales in the Chilean food retail industry in 2013, sales through this channel totaled US\$17.9 billion, equivalent to 62% of the industry's overall value.

According to data from the National Statistics Institute of Chile, the total number of supermarkets and hypermarkets combined in the Metropolitan Region in January 2013 was 539 stores, while by January 2014 the number increased to 544, which represents an increase of 5 new stores in twelve months. At the national level, 26 new stores opened during the same period increasing from 1,321 to 1,347. The Metropolitan region concentrates 42% of all the supermarkets in the country.

According to CERET (Centro de Estudios del Retail de la Universidad de Chile, a Chilean retail consultancy focused primarily on the supermarket industry), the supermarkets formats that represent a higher sales volume in order of sales are:

- Hypermarkets
- Traditional supermarkets
- Small supermarkets and/or convenience stores

Supermarkets have a high level of concentration with 53.3% of the sector divided into four larger chains: Walmart, Cencosud, SMU Group and Tottus.

Each of the actors in this industry is seeking out differentiation, emphasizing on prices or quality service. In recent years expansion has focused on urban areas with less purchasing power. Recent trends in the industry have been in the area of private label products, as well as an increased demand for organic products and prepared meals.

Competition among retailers has become quite intense in terms of their private label supply. Companies realize that Chilean consumers are particularly cost-sensitive in almost all products of the retailing industry, and therefore are especially prone to prefer private label over most recognized brands. Thus retailers improve the quality, design and reach of their private label in order to meet the preference of their consumers.

### **Supermarket Profiles:**

#### **Cencosud (Jumbo and Santa Isabel):**



Cencosud S.A. is a public traded and multi-brand multinational retail company. It is among the largest retail group in Latin America with active operations in Argentina, Brazil, Chile, Peru and Colombia employing over 140 thousand collaborators. In 2012, Cencosud listed American Depositary Receipts (ADRs) on the New York Stock Exchange.

Operations are spread across different lines of business, such as supermarkets and/or Hypermarkets, home improvement, department stores, shopping centers and financial/banking services. In addition, Cencosud develops other business lines that complement their core operations, such as insurance brokerage and family entertainment centers.

Cencosud business consists of five segments, including four retail segments, which allows the company to reach a wide range of customers offering various combinations of products, price, quality and service. For the year ended December 31, 2013, Cencosud had 1,123 stores and shopping centers. The product portfolio at the food retail sector includes food and non-food products, bakery products, dairy, deli,

frozen food, general grocery, produce, seafood, snacks, liquor, wine, pre-packaged meats, specialty drinks, cookies, fruits, sweets gums, and other chocolates and consumer goods, also gardening products, electronics, fitness, etc. Cencosud operates stores under several banners in the region that includes, Easy, Jumbo, Disco y Vea, Santa Isabel, Paris and Wong. Cencosud headquarters are located in Santiago, Chile.

In 2013 revenues rose 18% in terms of U.S. dollars. Consolidated gross profit rose 18%, double digit increase in gross profit in every division except financial service.

## CENCOSUD – 2014

- 923 Supermarkets in Chile, Argentina, Brasil, Perú and Colombia
- Chile: 37 Hypermarkets and 187 supermarkets.
- 48 shopping centers in Chile, Argentina, Perú and Colombia (25 in Chile).
- 89 Home improvement stores in Chile, Argentina and Colombia (32 in Chile).
- 83 Department stores in Chile and Perú (77 in Chile).



## Wal-Mart Chile:

Walmart Chile's participation in the industry includes the traditional supermarket line (groceries and perishables) as well as lines traditionally dominated by department stores, such as clothing, footwear, electronic appliances, and home and furniture lines.

Walmart former known as D&S was founded in 1985, is dedicated to the wholesale industry regarding sales in the domestic market. In 2008, the multinational Walmart took over approximately the 70% of the firm, ensuring that it will keep its line of work, its leadership in the market and its collaboration with its suppliers. Walmart Chile is a Chilean company whose main business is developing through supermarket, hypermarkets and convenience stores formats under a multi-branded presence across the country (Lider, Lider Express, Ekono, Bodega aCuenta and Central Mayorista for small convenience stores, mom & pop stores and kiosks).





company also provides other consumer services such as home delivery, reward cards, credit card, insurance and other financial services. The company markets its merchandise through retail stores, websites and others. Falabella is headquartered in Santiago, Chile.

### **TOTTUS - 2014**

- 80 stores in Chile and Peru (50 stores in Chile).
- 9 new stores in 2015
- 1,520 new job opportunities
- 251,273 m<sup>2</sup>



### **SMU- Unimarc:**



SMU S.A. operates several supermarkets and convenience stores in Chile. The company operates under the brand names of Unimarc, OK markets and Telemercados, grocery and perishables delivery. The company is based in Santiago, Chile. It became an amalgamation of about 50 grocery chains in Chile adding to the above Deca Supermarkets, Bryc and Montserrat supermarkets. Due to this expansion in a short period of time it became the fourth-largest retailer in the food market. Its expansion strategy in Chile was remarkable until 2012 however it faced several financial downturns in 2012 and 2013.

In 2007, SMU acquired Unimarc's assets from the Chilean Errazuriz Group. Following this acquisition, SMU unified all its supermarkets under the Unimarc brand, while operating cash and carry stores under the Alvi and Mayorista 10 and Food Market banners. In 2010, SMU opened 50 new supermarkets in Chile, pushing the total number of stores to 329 in 2011, employing 41,437 workers.

Due to revealed accounting errors reported by SMU that lead it to breach covenants in 2013, SMU initiated the sale of 19 supermarket stores, 3 distribution centers and the trademark Bigger to Network Retail society. The price of the transaction was US\$ 6.5 million. This operation is part of the orders by the Chilean Competition Tribunal as a condition for the merger with Supermercados del Sur (SdS).

### **A. CONVENIENCE STORES, GAS MARTS, KIOSKS.**

## Convenience Stores

The number of convenience stores and gas marts has grown considerably over the last decade. Convenience stores are typically of a smaller size ranging between 80 to 400m2, and have a small quantity of selected items targeting a consumer with little time in need of specific products.

The Chilean convenience stores market offers products focused mainly on cigarettes, snacks, candies, food to-go, beverages (hot and cold), sandwiches, salads, dairy products, wine and liquors, bread, deli, newspapers, magazines and basic products of easy reposition. These convenience stores have also incorporated other services like ATM machines, utility service payments, telecommunication services, etc.

Ranking 2013	Chain	Stores	Sales CLP Million	Sales US\$ Million	Share %
1	Copec	303	94,172.4	179	37.9%
2	Ok Market	121	37,606.8	71.7	15.1%
3	Select y Upa!	120	37,296.0	71.1	15%
4	Spacio 1	117	36,363.6	69.3	14.6%
5	Big John	54	25,920.0	49.4	10.4%
	Others	85	17,281.2	32.9	7%
<b>TOTAL</b>		<b>800</b>	<b>248,640</b>	<b>474.5</b>	<b>100%</b>

Source: ILACAD World Retail, 2014

The Chilean convenience store market is divided between a modern segment with stores located inside gas stations (gas marts), and independent store chains, and a traditional segment formed by small size neighborhood family stores run by their own and with a reduced number of products. During the last two years, the modern segment has expanded significantly increasing its sales by 11% from 2012 to 2013 and representing 6.9% of the total convenience stores market Traditional and modern segment.

Convenience Store	2012	2013	Var %
Annual Sales in Local Currency (MM CLP)	223,776	248,640	11.1%
Annual Sales (MM USD)	466	474	1.7%
Total Number of Stores	720	800	11.1%
Market Share	6.8%	6.9%	0.1%

Tradition , Family Stores & Convenience	2012	2013	Var %
Annual Sales (MM CLP)	3,035,425	3,341,439	10.1%
Annual Sales (MM USD)	6,324	6,377	0.8%
Total Number of Stores	4,499	3,699	-17.8%

## Gas Marts

Gas Marts have been present in Chile since mid-1990s, when some of the larger multinational chains

introduced them to the market. The gas station convenience store concept is currently a growing market in Chile with COPEC and Shell with the highest number of stores.

**Gas Marts 2013**

	<b>COPEC- Punto and Pronto</b>	<b>Shell – Select &amp; Upa!</b>	<b>Petrobras- Spacio 1</b>
<b>Annual sales MM US\$</b>	179	71	69
<b>Number of stores</b>	303	120	117
<b>Market share</b>	37.9%	15%	14.6%

Source: Press reports

The most popular products in these gas marts are:

- Soft drinks
- Juices
- Snacks
- Ice creams
- Cigarettes

Convenience stores, gas marts and kiosks sell limited quantities of imported candies and snack foods. These stores and chains do not generally import directly, but rather purchase from local wholesales/distributors.

A. Traditional markets – “mom and pop” small independent grocery stores and wet markets.

**Traditional Markets or Family Stores**

Although this category represents 98% of all retail food channel stores, its share of sales is about 15% of the total market in Chile. These outlets tend to offer an array of basic items and profit from their convenient locations. They offer a reduced number of imported food stock. Their suppliers are generally local distributors. Traditional family stores or markets are facing strong competition from big supermarkets and convenience stores with lower prices and greater choice, however, in an attempt to adjust to the new consumption patterns, several outlets have adopted new technologies and new services oriented to the community.

**SECTION III. COMPETITION**

Chile has signed 23 international free trade agreements into effect, totaling preferential market access to 61 countries.

The U.S. Chile FTA came into effect on January 1<sup>st</sup>, 2004. It immediately eliminated tariffs on almost

90% of U.S. products imported into Chile and more than 95% of Chilean exports to the United States. Tariffs on all products will be fully eliminated by 2016. Bilateral trade in goods grew by 33% that same year, regarding nearly US\$8 billion, while U.S. exporters of consumer-oriented food products to Chile grew 54%.

The United States is the main source of imported products to Chile, followed closely by China and the European Union.

Although the FTA allows immediate duty-free entry to Chile for the majority of U.S. goods, Chile’s two free trade zones (Iquique and Punta Arenas) still offer advantages. Modern facilities for packaging, manufacturing, and exporting exist in each zone. Imports entering and remaining in the free zone only pay value-added tax (VAT or IVA, 19%) when brought to Chile. However both zones are located in the extreme areas of the country, increasing transportation costs and diminishing their effectiveness as a source of distribution to Santiago.

U.S. and Chile tariff schedules can be found at [www.ustr.gov/new/fta/Chile/text/](http://www.ustr.gov/new/fta/Chile/text/), “Section 3, National Treatment and Market Access for Goods.”

### **Chilean Food and Agricultural Product Imports**

Import Statistics Agricultural, Fish & Forestry						
Year To Date: January - October						
Partner Country	United States Dollars			% Share		
	2012	2013	2014	2012	2013	2014
Argentina	\$1,888,435,840	\$1,460,132,198	\$1,273,205,464	36.77	26.62	23.57
United States	\$606,302,824	\$900,654,091	\$791,692,877	11.81	16.42	14.66
Brazil	\$591,969,943	\$647,839,417	\$588,964,682	11.53	11.81	10.91
Paraguay	\$134,832,355	\$40,5294,414	\$533,641,897	2.63	7.39	9.88
Canada	\$131,527,187	\$169,217,826	\$244,369,770	2.56	3.08	4.52
China	\$169,532,335	\$196,507,597	\$211,149,633	3.30	3.58	3.91

### **SECTION IV. BEST PROSPECTS**

#### **Category A: Products Present in the Market That Have Good Sales Potential**

#### **Dietary Consumption Trends**

According to Chile’s National Statistics Institute (INE), food and non-alcoholic beverages represent 18.63% of the monthly budget of a Chilean family. The most consumed products by Chileans are bread that it is consume in 93.2 of each 100 homes. This is followed by soft drinks, bought in 77.3 of each 100 home, then cold cuts and sausages (66.5%), beef (65%), lettuce (53.6%) and yogurt (53.2%).

## Best Products Prospects:

- Baby formula
- Baking food and mixes
- Breads and cookies
- Candy (gummies, chewing gums, marshmallows, etc.)
- Cereal
- Dairy products (yoghurt, cheese, milk varieties)
- Functional and/or Health and Wellness Food Sector
- Fruit juice
- Hot dogs
- Ice Cream
- Lactose free dairy products
- Olive oil and cooking oil
- Pastas
- Pet food
- Pork
- Poultry
- Rum, Vodka, Beer and Whisky
- Snacks
- Soft drinks and energy drinks
- Sweeteners
- Tomato sauce
- Tuna

### **Functional and/or Health and Wellness Food Sector**

Functional food products continue to show good growth potential as increasingly health-conscious consumers seek new products. Probiotic products are an example of this trend. Health and wellness concerns are a growing trend in Chile and the niche for special dietary food products such as gluten free, lactose free, sugar free, soy free, etc. are also on an upward trend. Although Chile lacks a formal regulatory definition for functional and health and/or wellness food, the term is currently used to designate foods that exert beneficial properties for health due to their content of bioactive ingredients. The Chilean food legislation includes a list of 18 health claims that may be associated to the consumption of a number of foods that exert beneficial effects, all based on sound scientific support ([www.minsal.cl](http://www.minsal.cl)). The international food legislation is increasingly demanding the food industry to validate health claims through a series of suitable preclinical and clinical studies in order to substantiate the claimed bioactivity of functional food ingredients.

A general definition of functional food was provided at the 9<sup>th</sup> International Conference of “Functional Food and Chronic Diseases: Science and Practice” at the University of Nevada in March 2011. “Functional food is natural or processed food that contains know biologically-active compounds which when in defines quantitative and qualitative amounts provides a clinically proven and documented health benefit, and thus, an important source in the prevention, management and treatment of chronic diseases of the modern age.”

On the other hand, the market for targeted health and wellness foods and beverages is a dynamic and promising one, driven largely by growing recognition, among scientists, government, practitioners, and consumers, of the instrumental role diet plays in a wide range of health conditions. In fact, diseases that are linked to eating habits including heart diseases, high-blood pressure, diabetes, strokes, and some types of cancer, are among the leading causes of death in Chile.

Packaged facts defines targeted health and wellness (THW) products as retail packaged foods and beverages that are specially formulated and distinctively marketed as addressing a specific health concern or disease. This category is distinct form, but related to, a number of other product categories, including functional foods, nutraceuticals, and condition-specific nutritional supplements.

However, the Chilean market segment is still small compared to other countries in Latin America. Chilean consumer are willing to pay more for th value-added products under these categories or defined as functional if it is good for his/her health and reduces any factor or risk of disease. This newly developed niche has reached up to USD3.1 billion annually in sales.

A survey undertook by Fundación Chile and the Chile Saludable Program (The Healthy Chile Program) of the Government of Chile reported that 45% of the Chilean consumers will be willing to pay more for better brands and healthy products.

According to Chile Saludable's report, health, wellness and functional food products represent 19% of the sales in the retail food and beverages sector. This category grew by 12.5% in average between 2007 and 2013 in Chile. This is due to an increasing awareness and interest among consumers about health issues such as obesity and chronic diseases and other health concerns related to poor eating habits, consequently, consumption of healthy and wellness products has been growing steadily during the last five years.

For example, products like bottled mineral and flavored water, green tea, and teas in general has grown and boosted sales of naturally healthy beverages in Chile. Reduced calories, fat or sugar packaged food has experienced the same consumption pattern.

### **Some new trends in the Chilean Market:**

- Green tea was the best performing product in 2013. Sales of all kinds of teas totals about US\$90 million annually in Chile, however, the market is mostly controlled by two companies; Cambiaso Hnos. S.A.C. and Unilever Best Foods (UBF). According to a report by AC Nielsen Consulting, consumption of tea represents 64% of all net sales of hot beverages. Coffee with almost 34% of the sales and herb teas with 1.6% follow this. Green tea represents only 0.5% of total sales.
- Sales of health and wellness energy and sports drinks have also increased significantly. Energy drinks like Gatorade, Battery, Shot, etc. are popular among young consumers, while sport drinks

are becoming increasingly popular among consumers who have an active lifestyle based around sports, running and outdoor activities. In 2013, sales of energy drinks totaled US \$243.7 million, positioning Chile as the second country in Latin America with the highest per capita spending in energy drinks (US\$13.6). The three main brands of energy drinks sold in Chile are: Red Bull, Dark Dog and Burn.

- Sales of snack bars totaled US\$24.6 million in 2013, a 101.6% increase during the last five years with a per capita spending equivalent to USD1.4. This niche market continues growing as Chilean consumers increase their spending on healthy and functional food. The three main actors in the local markets during 2008 and 2013 were Quaker Chewy of Evercrisp Snack, owned by PepsiCo, Costa bars owned by the Chilean Carozzi, Cereal Mix by Bagley Chile, a branch of the Argentinian Arcor. Supermarkets and Hypermarkets lead sales of snack bars with 40.7% and 34.4% of participation respectively.
- Although prices are higher than those of regular products, health and wellness products have been gaining ground in recent years as consumers have seen their disposable incomes increase due to the positive performance of the Chilean economy. As disposable income rises, the willingness to spend more on higher quality products also increases among consumers that are attracted by products that are marketed as being natural, healthy and free of artificial ingredients. Therefore, it is expected that health and wellness products will continue to perform well as current trends are set to continue in-line with rising awareness of the dangers of obesity rates and the prevalence of heart and cardiovascular diseases.
- If we compared the evolution of processed food and beverages classified under the category of health, wellness and functional with traditional processed food, health, wellness and functional food has experienced a significant dynamism in terms of retail sales during the last years. Processed food of the health, wellness and functional type has grown at average rates of 14.6%, while the rest at 7.9%. In relation to refreshments and beverages, the difference is even greater, as sales of this category of drinks increased by 16.6% in average while the rest by 7.1% in 2013.

### **Allergy and Intolerance Food Products:**

Allergic phenomena have increased globally, including conditions induced by food and additives. A food allergy is an adverse immune response to a food protein and food intolerance is a chemical reaction. The most common food allergens include cow's milk, egg, peanuts, tree nuts, shellfish, fish, sesame, wheat and soy products. According to the Chilean Society of Allergies and Immunology, in Chile about 8% of infants up to five years of age and 4% of adults have food allergies. About 60% of allergies appear during the first year.

**Cow's milk allergy** is becoming very common in early childhood among Chileans although adverse

reaction after ingestion of cow's milk can occur at any age. There are no surveys of populations and geographical trends in food allergy in adults or children and this unmet need is particularly felt by cow's milk allergy. Cow's milk allergy is rather new in Chile. Ministry of Health has acknowledged it as a disease recently, and due to the increasing number of newborns presenting this allergy, the Ministry of Health is working to increase and improve imports of special substitute milks or formulas.

**Gluten sensitivity** is another growing trend in Chile. Gluten sensitivity is considered an allergic reaction causing the Celiac Disease. Gluten is a type of food hypersensitivity defined as an abnormal immunological response to gluten/gliadin, which results in damage to gastrointestinal tract. Celiac disease requires a strict gluten free diet for life for proper recovery. This results in higher feeding costs. A study carried out by Fundación Convivir, an NGO supporting people suffering of celiac disease, shows that the cost of a daily basket especially designed for celiac patients in Chile compared to basic food basket for a regular Chilean, is almost twice as expensive, USD 105.2 to USD60.3 respectively. The basic food basket is calculated by using the National Socioeconomic Characterization Survey (CASEN) and the food prices reported monthly by the National Statistics Institute (INE).

The Gluten free market is still small in Chile, however it sales in 2013 totaled about US \$40 million. However, during the years and according to data provided by Convivir, sales of gluten free products have quadruplicated in supermarkets. The offer of certified gluten free product has increased from 167 products in 2010 to 724 in 2013. (List of certified products sold in Chile <http://www.healing.cl/uploads/1/1/0/3/11035706/marzo2014-alimentos.pdf> ). According to Convivir, the number of people shopping for gluten-free bread has doubled, despite gluten-free products costing 13.6% higher than wheat equivalents.

Healthy Food is a Chilean company that imports bread and bakery products that are gluten-free from the United States, Israel and Costa Rica. It imports about 15 different types of sliced bread, mixes for pound cake, brownies, donuts, cookies, and snacks. During 2013, Healthy Foods reported a 200% increase in their annual sales. Based on Healthy Food experience, other importers have entered the Chilean market such as Pibamour, La Palmas Distribution Company and Promerco.

**Lactose intolerance** is different to cow's milk allergy. It is a significant clinical syndrome caused by the lack of the lactase enzyme on individuals. The Chilean National Institute of health defined lactose intolerance as the onset of gastrointestinal symptoms due to lactose malabsorption. Among Chileans, there is a high prevalence (57%) of lactose intolerance. Approximately one third of the population has developed some degree of lactose intolerance.

Chile has been experiencing a boom of the "free of" or "non" food, the gluten free, non-lactose, sugar free foods and non-alcoholic beverages. Just a couple of years ago, this type of food was restricted to few imported and specialized brands and oriented towards a very restrictive market. However, today's increasing demand for healthy food plus allergy and intolerance of certain food components and protein has created a new niche market.

### **Some Trends in the Chilean Allergy and Intolerance Food Market:**

- Between 2011 and 2013 sales of the sub-category "Better for You" or "free of" food grew from

US\$900 million in 2011 to US\$1.1 billion in 2013 in Chile. That is, a 2.3% increase and projections estimate that this sub-category will grow by 49% in a period of five years compared to the previous year.

- In the beverage industry, reduced sugar beverages are growing faster than regular ones. Today, the participation of the “light” or also called “zero” (i.e., sugar free) beverages represent 29% of total consumption of soft drinks. Five years ago it only represented 15%. However, light powder juices comprise 51.2% of total sales in supermarkets.
- In 2013, lactose free food sales grew by 15% in terms of value and 14% in volume. Today, almost every brand of dairy products has its lactose free version. In Chile, 60% of the adult population and 40% of children between 10 and 18 years old presents some degree of lactose intolerance. Kantar World Panel estimates that over 850 homes in Chile are consuming lactose free products.

In addition and according to a study on 408 children and adolescent between the ages of 8 months and 15 years reporting with allergies to the Chilean Ministry of Health in 2013, 58% of them showed to have food allergies (cow’s milk, egg, beef, seafood, peanut, soy and orange).

In summary, consumers in Chile are becoming more health conscious and aware of their eating habits due to nutritional problems such as obesity and related diseases. There is also evidence of increasing ethical consumption behavior mainly identified in the higher income segments of the population.

### **Distribution Channels:**

The main distribution channels for health, wellness and functional food and beverage products as well as allergy and intolerance food products are supermarkets, specialty shops, street fairs, and restaurants mainly located in Santiago or on the internet. However, no official statistics exist. According to Jumbo supermarket representatives, organic fruit and vegetables increased sales by 52% between 2013 and 2014.

The expansion of a robust local market for the above categories of food is still a major task. However, there is growing awareness and concern from local health authorities on the need to promote healthy eating habits and they are facing higher demands on terms of allergies and food intolerance.

### **Category B: Products Not Present in Significant Quantities**

Products under this category are being introduced to the market and are new to many consumers. Some of these products have health certificates that are being finalized. Products like gourmet beef like Aberdeen Angus or Wagyu are also under this category due to changes in preferences, supply and demand. Major products in this category are:

- Beef
- Cocoa powder
- Ethnic food
- Organic products
- Processed meat products
- Ready-to eat meals/prepared plates
- Spices, sauces, dressings and mayonnaise

### **Category C: Products Not Present in the Market Because They Face significant Barriers**

Please refer to USTR, [National Estimate Report 2013](http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/NTE-FTB) for information. (<http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/NTE-FTB>)

### **SECTION V. POST CONTACT AND FURTHER INFORMATION**

#### **American Embassy Santiago, Office of Agricultural Affairs**

Address: Office of Agricultural Affairs, Unit 4118, APO AA 34033-4118

Tel.: (56-2) 2330-3704

Fax: (56-2) 2330-3203

Email: [agsantiago@fas.usda.gov](mailto:agsantiago@fas.usda.gov)

For further information check the “Food and Agriculture” home page on the U.S. Embassy Santiago web site ([www.usdachile.cl](http://www.usdachile.cl))

#### **SEREMI de Salud (Chile’s Food Sanitation Regulations)**

Address: Pedro Miguel de Olivares 129, Santiago

Tel.: (56-2) 2576-4989

Fax: N/A

Web Page [www.asrm.cl](http://www.asrm.cl)

#### **Chilean Supermarket Association (ASACH)**

Address: Av. Vitacura 2771, Las Condes, Santiago

Tel.: (56-2) 2236-5150

Fax: (56-2) 2236-5133

Web Page [www.asach.com](http://www.asach.com)

E-mail [asach@entelchile.net](mailto:asach@entelchile.net)

#### **Foreign Agricultural Service**

Web Page <http://www.fas.usda.gov>